The Fiscal Monitor

A Publication of the Department of Finance

Highlights

November 2006: budgetary surplus of $0.3 billion

There was a budgetary surplus of $0.3 billion in November 2006, slightly higher than the restated $0.1-billion surplus in November 2005. Budgetary revenues increased by $1.0 billion, or 6.0 per cent, due to strong growth in personal income tax revenues and a large gain in non-resident withholding taxes, partly offset by lower excise taxes and duties. Program expenses increased by $1.1 billion, or 7.8 per cent, reflecting increases in transfer payments and departmental operating expenses. Public debt charges were down $0.3 billion.

April to November 2006: budgetary surplus of $6.1 billion

For the first eight months of the 2006–07 fiscal year, the budgetary surplus is estimated at $6.1 billion, down $0.5 billion from the $6.6-billion surplus posted in the same period of 2005–06. Budgetary revenues rose $6.4 billion, or 4.6 per cent, reflecting solid growth in income tax revenues, partly offset by declines in excise taxes and employment insurance (EI) premium revenues. Program expenses were up $7.1 billion, or 6.4 per cent, due to both higher transfers and other program expenses. Public debt charges were down $0.1 billion.

Note to readers:

Beginning with the April Fiscal Monitor, *to facilitate comparison with the 2006–07 monthly results, revenues and expenses from 2005 have been restated on a gross reporting basis, consistent with the presentation in Budget 2006. As well, revenues have been restated to evenly distribute the cost of the retroactive increase in the basic personal amount and the reduction of the 16-per-cent tax rate to 15 per cent for the 2005 taxation year. The restatement of revenues also has an impact on reported surpluses for the April-to-December 2005 period.*

November 2006

There was a budgetary surplus of $0.3 billion in November 2006, up slightly from the restated $0.1-billion surplus in November 2005.

Budgetary revenues grew by $1.0 billion, or 6.0 per cent, to $18.3 billion.

- Personal income tax revenues were up $0.8 billion, or 10.9 per cent, in November, following a gain of only 0.5 per cent in October.
- Corporate income tax revenues rose $0.1 billion, or 4.1 per cent. Corporate income tax revenues can be volatile on a monthly basis, as large refunds or settlement payments may be recorded in any given month. In addition, assessments or reassessments, which can relate to activity that took place several years prior, can influence results in a given month.

- Other income tax revenues—withholdings from non-residents—rose $0.7 billion, a significant part of which reflects a one-time payment in respect of the sale of Canadian assets by a non-resident firm.
- Excise taxes and duties declined by $0.5 billion due to an 18.4-per-cent drop in goods and services tax (GST) revenues, reflecting the 1-percentage-point reduction in the GST rate effective July 1, 2006.
- EI premium revenues declined by 7.9 per cent, reflecting the decline in the premium rate from $1.95 to $1.87 per $100 of insurable earnings, effective January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues, consisting of net profits of enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, return on investments, foreign exchange revenues and miscellaneous revenues, rose $0.1 billion, or 3.5 per cent. This revenue stream is volatile on a monthly basis.

Program expenses in November 2006 were $15.3 billion, up $1.1 billion, or 7.8 per cent, from November 2005, reflecting increases in transfer payments and operating expenses of departments and agencies, including National Defence.

Transfer payments increased by $0.5 billion, or 5.6 per cent.

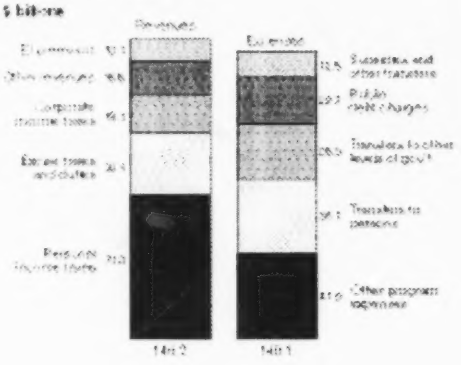
- Transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, rose $0.3 billion, or 8.0 per cent. Elderly benefits increased by 5.3 per cent. EI benefit payments decreased by 0.9 per cent, reflecting declines in both maternity and parental benefits. Children's benefits consist of the Canada Child Tax Benefit and the new Universal Child Care Benefit (UCCB), which began on July 1, 2006. Children's benefits were up $0.2 billion, reflecting transfers under the new UCCB program.
- Transfers to other levels of government, consisting of transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, transfers for early learning and child care and Alternative Payments for Standing Programs, were up $0.3 billion, or 8.9 per cent.
- Subsidies and other transfers decreased by $0.1 billion, or 5.2 per cent. This component can be volatile on a monthly basis.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses increased by $0.6 billion, or 11.8 per cent, reflecting increases across a number of departments.

Public debt charges decreased by $0.3 billion.

Revenues and expenses
April to November 2006

$ billions



April to November 2006

In the first eight months of the 2006–07 fiscal year, there was a budgetary surplus of $6.1 billion, down $0.5 billion from the $6.6-billion surplus reported for the same period of 2005–06.

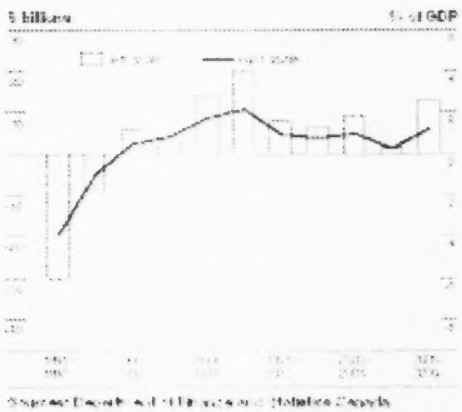
Budgetary revenues through the first eight months of the fiscal year were up $6.4 billion, or 4.6 per cent, to $146.2 billion.

- Personal income tax revenues rose $5.9 billion, or 9.2 per cent, reflecting solid growth in employment and wages and salaries combined with the progressivity of the personal income tax system.
- Corporate income tax revenues increased by $1.7 billion, or 9.5 per cent, reflecting a higher corporate instalment payment base, which in turn reflects profit growth in 2005 and 2006. The corporate results to date are not indicative of the eventual outcome for the fiscal year as a whole. Roughly two-thirds of corporate income tax revenues comes from corporations with year-ends in October to December, which results in roughly half of corporate income tax revenues being received in the last four months of the fiscal year, when these corporations must make settlement payments in respect of any differences between their actual tax liabilities for the year and their instalment payments. Consequently, results for even the first eight months of the fiscal year can d i ffer markedly from the final, full-year outcome.
- Other income tax revenues rose $0.8 billion, or 28.8 per cent, boosted by a one-time payment related to the disposition of Canadian assets by a non-resident firm.
- Excise taxes and duties declined by $1.9 billion, or 5.9 per cent, primarily due to a $2.0-billion drop in GST revenues, reflecting the impact of the July 1, 2006, GST rate reduction. Sales and excise tax revenues decreased by $0.1 billion, or 0.9 per cent. Customs import duties rose $0.1 billion, or 4.4 per cent, while revenues from the Air Travellers Security Charge were $12 million higher.
- EI premium revenues declined by 7.3 per cent, reflecting the decline in the premium rate from $1.95 to $1.87 per $100 of insurable earnings, effective January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues rose $0.8 billion, or 6.3 per cent.

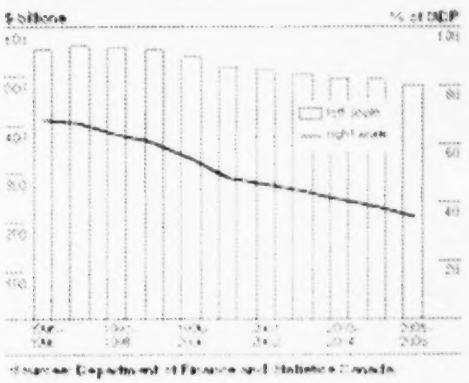
Program expenses in the April-to-November 2006 period were $117.5 billion, up $7.1 billion, or 6.4 per cent, from the same period of 2005–06, due to both higher transfers and increased operating costs of departments and agencies, including National Defence. Public debt charges decreased by $0.1 billion.

Transfer payments, which account for about two-thirds of total program expenses, increased by $4.1 billion, or 5.8 per cent.

Budgetary balance



Federal debt (accumulated deficit)



- Transfers to persons grew by 5.1 per cent. Elderly benefits were up 4.8 per cent while EI benefits were down 3.9 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in maternity and parental benefits, which have decreased due to the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province, effective January 1, 2006. Children's benefits increased by 19.0 per cent, reflecting transfers under the new UCCB program, which began on July 1, 2006.
- Transfers to other levels of government were up $1.8 billion, or 7.1 per cent, largely due to the impact of the 2004 agreement on health care, as well as a $650-million transfer to provinces and territories in July 2006 for early learning and child care.
- Subsidies and other transfers increased by $0.6 billion, or 4.9 per cent, reflecting increases in transfer payments across a number of departments, most notably Agriculture and Agri-Food Canada.

Other program expenses increased by $2.9 billion, 7.5 per cent, due to an increase in the operating costs of departments and agencies as well as a one-time increase in September 2006 in the Government's estimated pension liabilities.

Public debt charges were down 0.6 per cent due mainly to a decrease in the stock of interest-bearing debt.

Financial source of $2.8 billion for April to November 2006

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a requirement of $3.3 billion in the April-to-November period, reflecting payments made to provinces and international organizations pursuant to Bill C-48. This is down from an $8.0-billion requirement in the same period of 2005–06. The decrease in the requirement largely reflects the transfer of the Government's holdings in the Canada Pension Plan to the Canada Pension Plan Investment Board in 2005–06, as well as an increase in the financial source from foreign exchange activities due to variations in the exchange rate.

With a budgetary surplus of $6.1 billion and a requirement of $3.3 billion from non-budgetary transactions, there was a net financial source of $2.8 billion in the first eight months of 2006–07 compared to a net financial requirement of $1.4 billion in the same period of 2005–06.

Net financing activities down $7.4 billion

The Government used this net financial source of $2.8 billion and a reduction in its cash balances of $4.6 billion to reduce its market debt by $7.4 billion by the end of November 2006, largely through a reduction of treasury bills and foreign currency borrowings. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of November stood at $13.3 billion.

Table 1

Summary statement of transactions

	November		April to November	
	2005	2006	2005–06	2006–07
	($ millions)			
Budgetary transactions				
Revenues	17,268	18,311	139,767	146,188
Expenses				
Program expenses	-14,193	-15,298	-110,392	-117,456
Public debt charges	-2,990	-2,709	-22,789	-22,650
Budgetary balance (deficit/surplus)	85	304	6,586	6,082
Non-budgetary transactions	47	-396	-8,020	-3,314
Financial source/requirement	132	-92	-1,434	2,768
Net change in financing activities	3,275	10,010	-8,697	-7,383
Net change in cash balances	3,407	9,918	-10,131	-4,615
Cash balance at end of period			7,025	13,346

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

Budgetary revenues

	November			April to November		
	2005	2006	Change	2005–06	2006–07	Change
	($ millions)		(%)	($ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	7,718	8,560	10.9	64,339	70,252	9.2
Corporate income tax	2,393	2,490	4.1	17,462	19,125	9.5
Other income tax	343	994	189.8	2,684	3,457	28.8
Total income tax	10,454	12,044	15.2	84,485	92,834	9.9
Excise taxes and duties						
Goods and services tax	3,006	2,452	-18.4	22,997	21,036	-8.5
Customs import duties	329	304	-7.6	2,327	2,429	4.4
Sales and excise taxes	797	833	4.5	6,458	6,401	-0.9
Air Travellers Security Charge	25	30	20.0	231	243	5.2
Total excise taxes and duties	4,157	3,619	-12.9	32,013	30,109	-5.9
Total tax revenues	14,611	15,663	7.2	116,498	122,943	5.5
Employment insurance premiums	896	825	-7.9	10,902	10,101	-7.3
Other revenues	1,761	1,823	3.5	12,367	13,144	6.3
Total budgetary revenues	17,268	18,311	6.0	139,767	146,188	4.6

Note: Totals may not add due to rounding.

Table 3

Budgetary expenses

	November			April to November		
	2005	2006	Change	2005–06	2006–07	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,433	2,562	5.3	19,251	20,179	4.8
Employment insurance benefits	1,050	1,041	-0.9	8,990	8,635	-3.9
Children's benefits	779	1,000	28.4	6,148	7,319	19.0
Total	4,262	4,603	8.0	34,389	36,133	5.1
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,584	1,679	6.0	12,667	13,427	6.0
Canada Social Transfer	685	709	3.5	5,483	5,667	3.4
Total	2,269	2,388	5.2	18,150	19,094	5.2
Fiscal transfers	1,045	1,125	7.7	8,492	8,856	4.3
Canada's cities and communities	0	38	n/a	394	344	-12.7
Early learning and child care	0	0	n/a	0	650	n/a
Alternative Payments for Standing Programs	-261	-227	-13.0	-1,939	-2,055	6.0
Total	3,053	3,324	8.9	25,097	26,889	7.1
Subsidies and other transfers						
Agriculture and Agri-Food	161	324	101.2	896	1,371	53.0
Foreign Affairs and International Trade	182	189	3.8	1,389	1,311	-5.6
Health	173	208	20.2	1,183	1,261	6.6
Human Resources and Social Development	132	136	3.0	1,045	1,078	3.2
Indian Affairs and Northern Development	563	351	-37.7	3,239	3,105	-4.1
Industry	118	135	14.4	1,247	1,252	0.4
Other	532	421	-20.9	2,939	3,149	7.1
Total	1,861	1,764	-5.2	11,938	12,527	4.9
Total transfer payments	9,176	9,691	5.6	71,424	75,549	5.8
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	100	126	26.0	868	890	2.5
Canada Mortgage and Housing Corporation	172	172	0.0	1,366	1,355	-0.8
Other	185	241	30.3	2,154	2,218	3.0
Total	457	539	17.9	4,388	4,463	1.7
Defence	1,249	1,435	14.9	9,540	10,252	7.5
All other departments and agencies	3,311	3,633	9.7	25,040	27,192	8.6
Total other program expenses	5,017	5,607	11.8	38,968	41,907	7.5
Total program expenses	14,193	15,298	7.8	110,392	117,456	6.4
Public debt charges	2,990	2,709	-9.4	22,789	22,650	-0.6
Total budgetary expenses	17,183	18,007	4.8	133,181	140,106	5.2

Note: Totals may not add due to rounding.

Table 4

The budgetary balance and financial source/requirement

	November		April to November	
	2005	2006	2005–06	2006–07
	($ millions)			
Budgetary balance (deficit/surplus)	85	304	6,586	6,082
Non-budgetary transactions				
Capital investing activities	-193	-247	-1,171	-1,289
Other investing activities	-251	-849	-2,386	-2,634
Pension and other accounts	-15	498	-549	3,384
Other activities				
Accounts payable, receivables, accruals and allowances	584	157	-6,491	-6,398
Foreign exchange activities	-314	-207	544	1,585
Amortization of tangible capital assets	236	252	2,033	2,038
Total other activities	506	202	-3,914	-2,775
Total non-budgetary transactions	47	-396	-8,020	-3,314
Net financial source/requirement	132	-92	-1,434	2,768

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	November		April to November	
	2005	2006	2005–06	2006–07
	($ millions)			
Net financial source/requirement	132	-92	-1,434	2,768
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	3,253	3,299	-1,410	3,554
Treasury bills	900	8,200	-2,500	-3,700
Canada Savings Bonds	-448	-1,338	-945	-1,808
Other	-15	-3	-196	-1,133
Total	3,690	10,158	-5,051	-3,087
Foreign currency borrowings	-217	58	-3,498	-3,964
Total	3,473	10,216	-8,549	-7,051
Cross-currency swap revaluation	48	92	-27	218
Unamortized discounts on debt issues	-231	-285	-184	-487
Obligations related to capital leases	-15	-13	63	-63
Net change in financing activities	3,275	10,010	-8,697	-7,383
Change in cash balance	3,407	9,918	-10,131	-4,615

Note: Totals may not add due to rounding.

Table 6
Condensed statement of assets and liabilities

	March 31, 2006	November 30, 2006	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	101,432	96,139	-5,293
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	261,134	264,688	3,554
Treasury bills	131,597	127,897	-3,700
Canada Savings Bonds	17,342	15,534	-1,808
Other	3,102	1,969	-1,133
Subtotal	413,175	410,088	-3,087
Payable in foreign currencies	14,085	10,121	-3,964
Cross-currency swap revaluation account	-2,258	-2,040	218
Unamortized discounts and premiums on market debt	-6,780	-7,267	-487
Obligations related to capital leases	2,927	2,864	-63
Total unmatured debt	421,149	413,766	-7,383
Pension and other accounts			
Public sector pensions	131,062	133,626	2,564
Other employee and veteran future benefits	43,369	44,449	1,080
Other pension and other accounts	5,493	5,233	-260
Total pension and other accounts	179,924	183,308	3,384
Total interest-bearing debt	601,073	597,074	-3,999
Total liabilities	702,505	693,213	-9,292
Financial assets			
Cash and accounts receivable	82,843	79,333	-3,510
Foreign exchange accounts	40,827	39,242	-1,585
Loans, investments and advances (net of allowances)	41,889	44,523	2,634
Total financial assets	165,559	163,098	-2,461
Net debt	536,946	530,115	-6,831
Non-financial assets	55,447	54,698	-749
Federal debt (accumulated deficit)	481,499	475,417	-6,082

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